

FISCAL NOTE

SB 3416

January 29, 2008

SUMMARY OF BILL: Prohibits health insurance carriers from requiring notification of hospital admissions within less than one business day following a patient's admission or the hospital's identifying of the patient and his or her health insurance carrier. Prohibits health insurance carriers from assessing penalties against or reducing contractual payments to a hospital if notice of admission is received within such time frames.

ESTIMATED FISCAL IMPACT:

Other Fiscal Impact – Should this legislation result in health insurance carriers not being able to require prior authorization for any type of hospital admission, there will be a significant fiscal impact on TennCare managed care organizations (MCO), the state sponsored health insurance plans, and local government health plans. It is estimated that this would result in an increase in state expenditures exceeding \$24,000,000, local government expenditures exceeding \$10,000,000,* and federal expenditures exceeding \$23,000,000.

Potential Impact on Health Insurance Premiums (required by Tenn. Code Ann. § 3-2-111): Should health insurance carriers not be able to require prior authorizations for in-patient hospital stays, there would be a significant increase in health insurance premiums estimated to exceed \$10,000,000.

Assumptions:

- The proposed bill would prohibit health insurance carriers from imposing a penalty or reducing contractual payments based on the time frame for which the hospital notifies the insurance carrier of a patient's admission. This could affect the health insurance carrier's ability to negotiate rates for hospital stays and the number of days for which the carrier will provide payment.
- In 2006, the Bureau of TennCare paid \$716,826,087 to hospitals for 947,715 in-patient days or approximately \$756.37 per day ($\$716,826,087 \div 947,715$). Based on a five (5) percent increase of in-

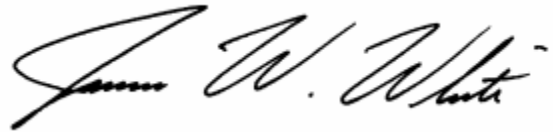
patient days ($947,715 \times .05 = 47,386$), there would be an increase in hospital expenditures of \$35,841,300 ($47,386 \times \756.37).

- The increase in state funds is estimated to be \$12,853,400 at a match rate of 35.862% and the federal funds are estimated to be \$22,987,900 at a federal match rate of 64.138%.
- From October 2006 to September 2007, total per member per year payments were \$3557. Twenty-six (26) percent, or \$925 of the total benefit expenditures of the state sponsored public sector plans were for in-patient admissions. Based on a five percent increase in inpatient days, there would be an increase to the per member per year payment of \$46.25. As of December 2007, there were 277,000 enrollees of the State, Local Education, and Local Government plans which would result in an increase of state expenditures of \$12,811,250.
- Any increase in payments to hospitals that a health insurance carrier incurs will result in a proportional increase in premium rates. The average single premium rate in 2005 was approximately \$4,000 per year and the average family premium rate in 2005 was approximately \$11,000 per year.

*Article II, Section 24 of the Tennessee Constitution provides that: *no law of general application shall impose increased expenditure requirements on cities or counties unless the General Assembly shall provide that the state share in the cost.*

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, reading "James W. White". The signature is fluid and cursive, with the first name "James" and last name "White" clearly legible.

James W. White, Executive Director

/kml